

Message Text

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ACTION EUR-12

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AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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SUBJECT: EDRC- ANNUAL REVIEW OF DENMARK

REF: OECD-EDR (75)17

1. SUMMARY: WE CONSIDER THE SECRETARIAT'S REVIEW IN
REFDOC GENERALLY SOUND BUT BELIEVE THAT BOTH PRIVATE AND
PUBLIC SPENDING MAY EXPAND LESS IN 1975 THAN ESTIMATED.
HOWEVER, A LARGER THAN ESTIMATED DANISH GAIN ON THE
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TRADE ACCOUNT MAY PREVENT THE OVERALL GROWTH RATE

FROM FALLING BELOW ZERO. END SUMMARY.

2. REFDOC WAS RECEIVED IN COPENHAGEN JUNE 26. FOLLOWING A QUICK REVIEW OF THE DOCUMENT, WE AGREE IN GENERAL WITH THE SECRETARIAT'S DESCRIPTIONS AND CONCLUSIONS -- WITH SOME MINOR RESERVATIONS.

3. THE SECRETARIAT'S ESTIMATE OF A ZERO GROWTH RATE IN 1975 MAY NOT BE FAR OFF THE MARK; AND IT IS IN AGREEMENT WITH MOST RECENT DANISH FORECASTS. THERE IS SOME RISK, HOWEVER, THAT THE RATE MAY FALL BELOW ZERO. ALTHOUGH THE SECRETARIAT'S ESTIMATED 4-5 PERCENT RISE IN PRIVATE CONSUMPTION IS SUPPORTED BY THE EXISTING INCOME/PRICE RELATIONSHIP, THERE IS NO HARD EVIDENCE THAT CONSUMERS WILL ACT ACCORDINGLY. ON THE CONTRARY, AT MID-YEAR, CONSUMER SPENDING IS STILL BELOW LAST YEAR'S LEVEL AND MOVING FLATLY. THE EXPLANATION IS PROBABLY PSYCHOLOGICAL; THE STILL HIGH UNEMPLOYMENT RATE CONTINUES TO DAMPEN PUBLIC VIEWS ON THE ECONOMIC FUTURE. PUBLIC SPENDING, ACCORDING TO RECENT FINMIN STATEMENTS, WILL NOT RISE BY MORE THAN 3 PERCENT, LESS THAN ESTIMATED BY THE SECRETARIAT. IF THESE DEMAND FACTORS ARE REDUCED, A NEGATIVE GROWTH RATE MAY BE PREVENTED ONLY IF GAINS ON TRADE ACCOUNT BECOME LARGER THAN FORECAST BY THE SECRETARIAT, MOST LIKELY BY A FURTHER REDUCTION OF IMPORTS.

4. WITH REGARD TO THE PAST AND PRESENT BALANCE OF PAYMENTS SITUATION, IT IS TRUE THAT ENTRY INTO THE EUROPEAN COMMUNITIES OFFERED DENMARK ADDITIONAL EARNINGS, BUT THE BALANCE OF PAYMENTS (CURRENT ACCOUNT) NEVERTHELESS DETERIORATED SHARPLY IN 1973 SO THAT DENMARK WAS NOT IN GOOD SHAPE TO MEET THE OIL CRISIS. IT IS NOTEWORTHY, THEREFORE, THAT EQUILIBRIUM ON THE BALANCE OF PAYMENTS WAS ATTAINED BY END OF 1974 AND WILL, APPARENTLY, BE PRESERVED IN 1975 -- ALBEIT AT CONSIDERABLE SOCIAL COST IN HIGH UNEMPLOYMENT. THIS YEAR, THE DEFICIT, LARGELY EQUIVALENT TO NET INTEREST PAYMENTS ABROAD, COULD

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DROP BELOW THE LEVEL INDICATED BY THE SECRETARIAT. THAT FOREIGN EXCHANGE RESERVES, DESPITE THE ABOVE, HAVE DROPPED BY 20 PERCENT OVER THE LAST 12 MONTHS IS DUE TO THE FACT THAT THE LARGE AND STABLE INFLOW OF FOREIGN CAPITAL QUOTED BY THE SECRETARIAT LARGELY CEASED IN THE LAST QUARTER OF 1974. IN THE FIRST QUARTER OF 1975, THE CAPITAL ACCOUNT WAS NEGATIVE. THE DETERIORATION OF THE RESERVE POSITION MAY BE

CONSIDERED LESS DANGEROUS THAN APPARENT IN VIEW OF THE REPORTEDLY LARGE AMOUNT OF UNUTILIZED LINES OF CREDIT HELD BY THE GOVERNMENT. ALSO THE SITUATION THUS FAR DOES NOT SEEM TO HAVE EXERCISED ANY SIGNIFICANT PRESSURE AGAINST THE DANISH KRONER IN THE MINI-SNAKE COOPERATION.

5. FINALLY, THE SECRETARIAT, PROBABLY UNINTENTIONALLY, OVERDRAMATIZES THE UNEMPLOYMENT SITUATION SOMEWHAT BY CONSISTENTLY MIXING ANNUAL UNEMPLOYMENT RATES IN WITH UNADJUSTED MONTHLY RATES. THE 1.5 PERCENT RATE OF UNEMPLOYMENT (IN TERMS OF LABOR FORCE) REGISTERED FROM 1960-73 WAS VERY LOW, OFTEN WITH SEVERE LABOR SHORTAGES AND RESULTANT LABOR RIGIDITY. WHILE THE RISE TO 2.3 PERCENT IN 1974 RESULTED LARGELY FROM DETERIORATION IN THE LABOR MARKET DURING THE SECOND HALF OF THAT YEAR, WHEN THE RATE PROBABLY APPROACHED THE 3.5-4 PERCENT RATE FORECAST FOR BOTH 1975 AND 1976, THESE RATES ARE NEITHER DISPROPORTIONATELY HIGH VIEWED AGAINST CURRENT EUROPEAN CONDITIONS, NOR ARE THEY THE HIGHEST RATES IN 20 YEARS. FROM 1955 TO 1959, DANISH UNEMPLOYMENT AVERAGED 4.2 PERCENT. MOREOVER, THE AVAILABLE LABOR RESERVES AT THAT TIME PROBABLY PRECONDITIONED THE SUBSEQUENT EXPANSION OF THE INDUSTRIAL SECTOR. IN THE PRESENT SITUATION, THE PROBLEM IS TO TRANSFER LABOR FROM DOMESTIC TO EXPORT ORIENTED INDUSTRIES IN ORDER TO PREVENT A RETURN TO RECURRING BALANCE OF PAYMENTS DEFICITS. IT IS OUR IMPRESSION FROM TALKS WITH INDUSTRIES THAT THE APPARENTLY EXCESSIVE LABOR MARKET REACTION TO THE REDUCED ACTIVITY LEVEL, AS QUOTED BY THE SECRETARIAT, WAS DUE IN LARGE MEASURE TO REDUCED LABOR HOARDING AND IMPROVED LABOR EFFICIENCY AS

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